

TARIFFS AT WORK

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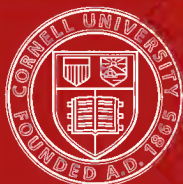
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TARIFFS AT WORK

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AN OUTLINE OF PRACTICAL TARIFF
ADMINISTRATION, WITH SPECIAL
REFERENCE TO THE UNITED
STATES AND CANADA

By

JOHN HEDLEY HIGGINSON

B.Sc. (ECON.)

MITCHELL STUDENT OF THE UNIVERSITY OF LONDON; UNIVERSITY
(COBDEN) PRIZEMAN AND SILVER MEDALLIST: AND OF THE
SECRETARIES' OFFICE, BOARD OF CUSTOMS AND EXCISE

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PREFACE

THE economic and political problems connected with the imposition and collection of import duties have been very fully discussed by writers on the tariff, and considerable literature on the subject has been accumulated. The administrative aspect of the tariff question, however, has received, in England at any rate, comparatively scant attention. The probable reason for this is that the administration of the tariff is primarily a practical subject, and information with regard to it is mainly in the possession of those whose business it is to act rather than to write. Yet a view of the general tariff problem which leaves out the administrative aspect is manifestly incomplete, and the importance of the connexion between the methods adopted in the actual

working of a tariff and its commercial and political effects can hardly be exaggerated. It is not, for instance, a small thing, either to the government of a country or to the trading community, whether the tariff system adopted is the Maximum and Minimum system as in France, or the General and Conventional system as in Germany; the choice between specific and *ad valorem* duties is of moment to statesmen and merchants alike, whilst the warehousing of goods in bond and the grant of drawbacks are questions of great commercial importance. All these are problems of tariff administration.

The following pages embody some results of an inquiry undertaken by me as Mitchell Student of the University of London and conducted mainly at the London School of Economics and Political Science. The most interesting portion of my studies, however, was the practical investigation of tariff administration in the United States and Canada, which I was able to make on my visit to those countries in the year 1910. For very many facilities during that visit

I was indebted to the International Interchange of Students.

In the course of my Transatlantic tour, I was able to obtain an insight into the actual working of the American tariff system, and to acquire first-hand information with regard to departmental practice both in the United States and Canada. The chief centres of my work were Washington, New York and Ottawa, and I was so fortunate as to enjoy, in the prosecution of my inquiries, the encouragement and assistance of the Rt. Hon. James Bryce, British Ambassador to the United States, who procured for me every facility that the Washington officials could give. Alike at the Treasury, at the Tariff Board and at the Bureau of Commerce, I found the tariff experts of the Government pleased to discuss the problems in which we were jointly interested and to place at my disposal all the information I required. In Washington I thus studied the administrative framework of the tariff system; in New York I was able to investigate the practical details, being granted unique facilities by the Collector of the

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I
TARIFF SYSTEMS

origin being made. The countries which now use a Single Tariff system are either countries of minor importance from a commercial point of view, or free-trade countries like the United Kingdom. There is a marked tendency towards the abandonment of this system by countries with a protective tariff, as it is not found sufficiently adaptable to the necessities of modern commerce. Even those countries by whom it is nominally retained have found it convenient to employ some of the expedients of the double or multiple tariff systems which will be described later. And in the United States, which was, until the year 1909, the foremost example of protected countries favouring a single tariff schedule, this has been replaced by a tariff modelled, with important variations, on the same general plan as the Maximum and Minimum system of France.

In the case of free-trade countries like the United Kingdom, the main characteristic of their fiscal policy is the absence of a tariff except for revenue purposes, and it is clear that the methods of tariff adminis-

tration must differ greatly from the methods employed in countries which impose protective duties. Only twenty-five articles are liable to duty on importation into the United Kingdom, the main items of the Customs Revenue in the year ended March 31, 1912, being as follows :—

Tobacco	£17,342,360
Tea	6,159,070
Spirits	4,215,745
Sugar	3,059,455
Wine	1,088,346
Motor Spirit	607,743
Cocoa	380,765
Coffee and Chicory	221,930
Dried Fruit	475,239

The total Customs Revenue collected during that year amounted to £33,596,645, and it will thus be seen that, whilst the dutiable articles are few, their productiveness from a revenue standpoint is great.¹

As compared with the administration of the tariff under the other systems subsequently

¹ See Appendix A—“ A Comparison of Past and Present Tariff Administration in Great Britain.”

to be described, the single schedule has some obvious advantages. There is no difficulty as to the operation of the Most Favoured Nation clause, for all nations are treated alike, and the executive authorities are relieved of all responsibilities beyond the actual assessment and collection of the duties imposed by the Legislature.

In a country where the legislative branch of the government is jealous of encroachments by the Executive, as in the United States, a Single Tariff will always find some supporters, in spite of its lack of elasticity and of capacity for adjustment to the needs of an export trade. Notwithstanding the nominal change of system by the United States in 1909, experience so far has shown that the second schedule exists only in name, the minimum tariff being the effective one, with the maximum held discreetly in reserve.

That the Single Tariff fails, however, to meet the requirements of modern legislators, when domestic industries are pressing for an outlet, may be gathered from the experience of Germany, which abandoned it in 1891 and has not returned to it, and of France,

which has considered it wise to adhere to the dual system adopted in 1892.

The nations which retain the Single Tariff, simple as it may be as regards actual working, suffer certain disabilities in commercial negotiation. It is quite possible to exaggerate the seriousness of these disabilities, but even countries which enjoy the benefit of the Most Favoured Nation clause do not altogether escape from them. As will be shown in a subsequent chapter, the tendency in the framing of tariffs is towards detailed specialization, and this tendency is not without influence upon concessions extended to other countries under the Most Favoured Nation system. When a protected nation reduces, by agreement with a particular country, the tariff rate on a given commodity, it is possible that the commodity will be so chosen, or the tariff classification so adjusted, as to ensure that the effect of the concession will practically be restricted to the country with which the agreement is made.

Single-tariff countries, unless they abandon altogether their existing tariff rates, have nothing to offer in return for concessions

from a foreign country, and the single tariff is now, as has been noted, a rarity amongst commercial nations of the first rank.

THE GENERAL AND CONVENTIONAL SYSTEM

The essence of this system, which is accompanied by an extensive network of commercial treaties, is the mutual exchange of tariff concessions. Its origin is to be found in the change of tariff policy made by Germany in 1891. Until that year the single tariff framed by Bismarck in 1879 had been maintained, and had so far succeeded in its aim of stimulating domestic production that German manufacturers were now demanding not merely protection at home but also an entry into foreign markets. The other nations of Europe, however, had by this time discarded, wisely or unwisely, the free-trade principles which seemed, in the decade subsequent to 1860, likely to spread far beyond the shores of the United Kingdom, and had returned, from motives which were in most cases relative to the circumstances of the particular countries concerned, to the

principle of protection. Consequently, from the markets of Europe, Germany found her goods excluded by high tariff walls, and the only way of obtaining an entrance was by means of reciprocal tariff concessions. Whilst retaining, therefore, the tariff of 1879 as a "general" tariff, negotiations were opened with the surrounding nations for such reductions as they were prepared to concede in return for a reduction of Germany's "general" duties upon their exports. Treaties containing reciprocal concessions were concluded with seven countries of Europe, viz. Italy, Switzerland, Russia, Austria, Roumania, Servia and Belgium. The rates of duty thus agreed upon were, by the operation of the Most Favoured Nation clause, extended to certain other countries, and these rates, which are, in most cases, lower than those of the "general" tariff, formed what was known as the "conventional" schedule. The tariff of Germany thus consisted of two schedules, one containing the high rates which were to be maintained against imported commodities in general and the other containing the lower duties

imposed upon the imports from such nations as extended favourable treatment to the products of Germany. The treaties thus made expired in the year 1903, but the system had been found to work so well that it was continued and numerous new treaties of the same general character were concluded, which will not expire until the year 1917. The example thus set by Germany has been followed by the following countries: Austria, Bulgaria, Greece, Italy, Japan, Roumania, Russia, Spain and Switzerland. The "general and conventional" principle may now be said to dominate the tariff policy of Continental Europe.

Where the treaty-making power is in the hands of the Executive, as in Germany, the "general and conventional" tariff system tends to diminish the relative importance of the legislative authorities, and tariff negotiation and administration fall mainly into the hands of officials. This is doubtless one of the reasons which induced the United States, in abandoning her single tariff in 1909, to prefer the Maximum and Minimum system.

But Germany has, from some points of

view, reason to be satisfied with the results of her tariff system. Whilst the burden of taxation on imports is heavily felt by the masses of the people and by many industries, the protection afforded by the tariff has encouraged the steady growth of manufactures which before 1879 were in their infancy and the introduction of many which were then unknown. The commercial treaties of 1891 and 1905 have supplemented the protection to domestic industry and have been the key to many important and valuable markets from which her manufacturers would otherwise have been totally excluded. It is, of course, unnecessary to point out to those acquainted with the theory of international trade that there is another side to the economic balance-sheet of protected countries.

THE MAXIMUM AND MINIMUM SYSTEM

This system, of which France presents the principal instance, resembles the one just described in that the tariff consists of two schedules. The one which is generally

known (though not quite accurately) as the maximum schedule, corresponds to the general tariff in the "general and conventional" system. The main difference lies in the structure, authority and application of the second schedule known as the minimum. This consists, not, as in the German conventional tariff, of a number of rates fixed by treaty with foreign countries, but of a fixed list of rates of duty, determined from the outset by the Legislature. Below these rates the executive authorities cannot go in any negotiations into which they may enter; they may, however, extend the application of this minimum schedule to such countries as are entitled to Most Favoured Nation treatment. The French minimum tariff has been conceded to most European countries as well as to many countries outside Europe. In the case of certain countries, of which Canada is an example, the minimum tariff applies only to certain specified products.

This system originated in Spain, and its adoption in France in 1892 was preceded by long and eager debate. One of the advan-

tages which it is said to possess over the conventional system is that, in prescribing a minimum beyond which the tariff rates may not be lowered without the authority of the Legislature as distinct from a mere bureaucracy, it assures to the home producer a fixed degree of protection against the competition of foreign merchandise; it thus imparts stability to industry and enables capitalists to make their plans without reason to fear that conditions of trade may be entirely altered by a change of rates which has received no sanction from the Legislature. This, it must be admitted, is an important commercial consideration. There have, however, been exceptions to the rule that the minimum schedule is not reduced. Russia, for instance, which adopted the French system, was compelled to concede to both France and Germany reductions of the minimum prescribed in 1893 and the minimum tariff promulgated by Greece met with a similar fate.

As has already been noted, jealousy of the Executive authority, as vested in the President, has had great effect upon the

course of tariff legislation in the United States. Under the Dingley (1897) Tariff Act, power was given to conclude certain commercial treaties with a view to reciprocity with foreign countries, but after agreements had been reached, the necessary ratification by Congress was refused and the negotiations fell through. A similar feeling found expression in the year 1911 when the reciprocity agreement with Canada, subsequently repudiated by the latter country, was provisionally negotiated. The tariff system adopted in 1909, when it was felt that steps must be taken by the United States to obtain access to foreign markets, was the one which restricted most severely the powers of the Executive. A minimum schedule was prescribed upon which reductions could not be made, but authority was conferred upon the President to apply to any country which metes out unfavourable discriminatory treatment to exported products of the United States, a tariff consisting of rates 25 per cent. in excess of those of the minimum schedule. The Government has fortunately been able, by means of some very

creditable negotiations, to avoid so far any occasion for the application of the maximum tariff.

Although the control of the fiscal machine which is secured to the Legislature by the Maximum and Minimum system is doubtless very desirable in certain circumstances, such control does not facilitate the promptitude and secrecy which are often essential in international trade negotiations. There is much to be said for leaving delicate matters such as these in the hands of Ministers, assisted by impartial officials whose expert knowledge, and familiarity with the requirements of commerce, are among their qualifications for the position they occupy. To bring before the Congress, the Reichstag or the Parliament proposals for commercial reciprocity with another country is to rouse party passion upon what should be strictly a non-party question, and to set in motion selfish influences which may be strong enough to defeat proposals conceived in the best interests of the commonwealth.

THE MULTIPLE SYSTEM OF CANADA

The tariff system which prevails in Canada differs in some respects from any of those already described and presents features which are of special interest to the British student of tariff administration.

The Canadian tariff contains a General, an Intermediate, and a British Preferential schedule of duties. The general tariff is applied to imports from all countries not entitled to special treatment. Imports from Germany were, from April, 1903, until early in 1910, subject in addition to the duties of the general tariff, to a special surtax of $33\frac{1}{3}$ per cent.; this surtax, however, has now been abolished. The Intermediate Tariff is employed as an instrument for negotiation for favourable treatment of Canadian products by foreign countries, and the application of this schedule may be extended to any country "in consideration of benefits satisfactory to the Governor in Council." A convention based upon the Intermediate Tariff was concluded with France in 1907, and the recent negotiations for reciprocity

between the United States and Canada, if they had come to fruition, would have resulted in the extension of the Intermediate rates to the products of the United States. The intermediate rates are, on the average, about 10 per cent. lower than those of the general tariff.

The preferential treatment of goods imported into Canada from the United Kingdom dates from the year 1897, and consisted originally of a reduction of one-eighth of the "General" rates on nearly all dutiable articles. In 1898 the preference was increased to a quarter, and in 1900 to one-third. This continued until June, 1904, when a number of changes, varying in detail, but leaving the preference substantially the same in effect, were brought into operation. One change in the preferential system which was made in 1906 is of importance from the administrative standpoint. Whilst the degree of preference remained practically the same as before, the uniform deduction of $33\frac{1}{3}$ per cent. was discontinued, and specific rates of duty were prescribed for British goods. It was thus possible to adjust the

preference to the exact requirements of trade in given articles, which were by no means the same in each case. The change had also the advantage of simplifying the calculations to be made by the Customs officials engaged in the actual assessment of the duties. The following items, selected at random from the Canadian tariff, give an approximate idea of the operation of the preference :—

	British Preferential.	Intermediate Tariff.	General Tariff.
Portland Cement	8 cents.	11 cents.	12½ cents.
Watch Cases .	20%	27½%	30%
Knife Blades .	5%	7½%	10%
Woollen Yarns .	12½%	17½%	20%

One feature of peculiar interest in the Canadian tariff system is the attempt to prevent by legislation the practice of "dumping." The Anti-Dumping Clause, which was originally adopted in 1904, imposes a special rate of duty upon goods exported from the glutted markets of other

countries at an unfairly low price, and reads as follows :—

“In the case of articles exported to Canada, of a class or kind made in Canada, if the export or actual selling price to an importer in Canada be less than the fair market value of the same article when sold for home consumption in the usual and ordinary course in the country whence exported to Canada at the time of its exportation to Canada, there shall, in addition to the duties otherwise established, be levied collected and paid on such article on its importation into Canada a special duty (or dumping duty) equal to the difference between the said selling price of the article for export and the said fair market value thereof for home consumption ; Provided that the said special duty shall not exceed fifteen per cent. *ad valorem* in any case ; Provided that the following goods shall be exempt from such special duty, viz. :

“ (a) Goods whereon the duties otherwise established are equal to fifty per cent. *ad valorem*.

“ (b) Goods of a class subject to an Excise Duty in Canada.

“ (c) Sugar refined in the United Kingdom.”

The Canadian Customs authorities are satisfied that this clause is, on the whole, fulfilling the purpose for which it was enacted. They have devised a system of effec-

tive checks upon the figures stated by importers in the invoices, and have appointed agents in various parts of the United States (which is the foreign country chiefly affected by the operation of the clause) one of whose functions is to ensure, so far as is possible, the accuracy of the statements as to price which form the basis of the duties levied on the importation on goods into Canada.

Another interesting provision of the Canadian tariff was that by which, until 1911, was granted a rebate of the duty on certain articles when imported for particular industries. The importation of iron for the manufacture of agricultural implements was encouraged by a drawback of 95 per cent. of the duty otherwise chargeable and there was a similar reduction on other imported articles to be used for further manufacture. This provision was consistent with the general aim of the tariff, which is the encouragement of Canadian industries, but was of somewhat doubtful utility in the interests of the nation as a whole.

In spite of these provisions, which make a study of Canadian tariff administration of

special interest, neither the manufacturers nor the farmers are completely satisfied with the general results. Recent tariff policy has been highly successful, especially in regard to the relations between the Dominion and France, Germany and the United States. But the interests of Eastern Canada are not those of the West, and there has been from time to time a demand for an impartial and permanent Tariff Commission to make a thorough investigation of the requirements of Canadian trade and to advise as to the necessary amendments of the tariff schedule. It is suggested that this should be composed of experts who shall have constant supervision of tariff policy. Some, however, who agree as to the value of an expert commission for the purpose of investigation, object to its being entrusted with the power to recommend actual changes in the tariff rates. As a permanent tariff commission is now an accomplished fact in the United States, it is not improbable that the near future may see the establishment of a similar commission in Canada.

OTHER PREFERENTIAL TARIFFS

South Africa, Australia and New Zealand have all followed the example of Canada in the establishment of a preferential schedule in favour of certain British articles. Thus, for example, in the South African tariff, the general rate on imported confectionery is $2\frac{1}{2}d.$ per lb., whilst a preferential rebate of $\frac{1}{4}d.$ per lb. is allowed on British confectionery. The Canadian example has also been followed in requiring the importer who desires to obtain the preference to declare that one-fourth of the article concerned represents substantially the amount of British labour embodied in its manufacture. Such declarations are open to attempts at fraud similar in character to those which frequently occur in connexion with the undervaluation of goods subject to an *ad valorem* duty, and the task of the officials responsible for the operation of the preferential schedule is one of some difficulty. The provision that one-fourth of the article must "represent substantially" British labour is liberally phrased, and the administrative trouble is

minimized when its practical interpretation is correspondingly liberal. It is obvious, however, that, if the preference is to have any concrete value, strictness must be observed as to the origin of the articles by which it is enjoyed. For the purpose of the preference, British origin is held to apply to goods which are the growth, produce and manufacture of the United Kingdom or of reciprocating British Colonies. The detailed provisions as to preference, of the Dominion of Canada, Australia, South Africa and New Zealand are framed on the same general plan, and the readiness with which the regulations of Dominions so important, yet so far apart, have been assimilated, cannot but be regarded as an encouraging augury for any future negotiations which may be necessary.

The British Empire affords the most notable example of Colonial Preference, but it is not peculiar in this respect. Into France, articles which are the produce of her Colonies or possessions are, with certain exceptions, admitted free, whilst tea, cocoa, chocolate and coffee enjoy a rebate of half the minimum tariff. This preference is extended, in

a modified form, to products of foreign origin imported via Algeria, thus obviating the payment of double duty.

In a similar spirit, Portugal, which is not otherwise distinguished for the liberality of its tariff provisions, extends a preference to certain goods of Colonial origin. Raw cotton produced in Angola is admitted free of duty, whereas cotton from other countries is subject to a duty of 30 reis (about twopence) per kilogram. Sugar from Angola and Mozambique enjoys a rebate of half the duty payable by sugar of foreign origin ; but this preference is subject to a maximum importation of 6,000,000 kilogrammes from each province per annum. The preference moreover is only granted when the sugar is carried in Portuguese vessels, a provision which is reminiscent of those which formerly regulated, in the supposed " national " interest, the commerce between the United Kingdom and her colonies.

GENERAL

The merits of the tariff systems which have been described may now briefly be

compared. Of the single tariff little need be added to what has already been said. As has been shown, the system is practically obsolete so far as concerns the nations of modern Europe, faced with the necessity of finding foreign markets for their products whilst at the same time seeking to protect native industries.

The retention of the Maximum and Minimum system by France, and its adoption, in a modified form, by the United States, are due not so much to appreciation of its superior merits, either economic or administrative, as to the peculiar conditions which prevail in those countries. The stability which the system confers upon industrial enterprise is unquestionable, but, for practical purposes the General and Conventional System, with its treaties fixed for a long period of years, may be considered almost equal in stability. At any rate, the effect of the latter system upon German industry and commerce does not appear to have been prejudicial and the fact that the German tariff experts were so satisfied, after twelve years' experience, as to recommend its con-

tinuance must be regarded as a most significant testimony in favour of the General and Conventional system.

The choice of a system will always be conditioned by the peculiar circumstances of the particular country concerned. It seems probable, however, that, in the case of nations which are free to choose, and which deem a tariff for other than revenue purposes desirable, a dual, triple, or multiple tariff, affording a basis alike for Protection, Negotiation and Preference, and possibly for varying classes of degrees of Preference, will be the system of the future.

II

THE MAKING OF A TARIFF

CHAPTER II

THE MAKING OF A TARIFF

THE development of precision and the application of expert knowledge in the framing of tariff schedules are amongst the most marked features of recent commercial policy. Even in the United States, where tariff rates and regulations were long regarded by the most optimistic administrators as a hopeless chaos, this development may be seen. The Payne-Aldrich Tariff Act of 1909 was in several ways an epoch-making measure, but probably no single clause was more far-reaching than the concluding sentence of Section 2, by which power was conferred on the President to employ such persons as may be required "to secure information to assist the President in the discharge of the duties imposed upon him . . . and the officers of the government in the administration of the Customs laws."

This clause was interpreted by President Taft as conferring authority to set up a new body, to be called a Tariff Board, consisting of a few specially selected experts on the tariff question and intended to form the nucleus of a permanent Tariff Commission. This course of procedure met with strong opposition both inside and outside Congress. A scientific and impartial examination of the tariff was doubtless the last thing desired by certain of the protected interests, whilst some regarded the appointment of such a Board as a usurpation of the powers of Congress over matters of Federal finance.

As a factor in tariff administration, however, this Tariff Board, for the permanent continuance of which statutory powers were taken, is of the first importance. It will be instructive to glance at some of the reasons which led to its appointment and to compare the tariff-making experiences of the United States with those of other countries. The idea of a Commission was not of course a new one, and, although recent tariffs in the United States have been framed mainly in accordance with the recommendations of

Committees composed of Congressmen, the best features in tariff legislation, in the classification of the articles liable to duty and in the general Customs regulations, have been based upon the evidence heard, and the conclusions formed, by the Tariff Commission which sat in the year 1882. This Commission made a thorough examination of the tariff in its manifold aspects and had the advantage of expert testimony from experienced officials and others versed in the science of tariff-making and administration. The Commission dealt courageously with the complicated problems of classification, and, although the United States tariff of the present day is far from scientific, it owes such logical form as it possesses mainly to the labours of the 1882 Commission.

It is clear that Committees composed of mere politicians are quite inadequate to the proper framing of a tariff. That this is a fact well recognized in Germany is shown by the steps which preceded the promulgation of the last German tariff, which came into force in 1906. Before the Tariff Bill was introduced in the Reichstag, its prepar-

ation had occupied for five years a special Commission of thirty-two representatives of the agricultural, commercial and manufacturing interests, assisted by special tariff experts of the Treasury and other government departments. In addition to this special Commission, no less than two thousand trade and technical experts were consulted by the Commission from time to time, so that, when the bill was actually drafted, every important industrial interest had been given the opportunity of making its needs and wishes known.¹ The German tariff schedules of to-day are incomparably more scientific in their classification and incidence than the corresponding schedules of the United States tariff.

It is not anticipated that the Tariff Commission now established in the United States will fulfil all the functions entrusted to the German Commission. The powers which the Constitution confers upon the executive authorities are much more limited in the

¹ "The Conventional Tariff System." N. I. Stone in *Annals of American Academy of Political and Social Science*.

United States than in the German Empire, and there can be no doubt that Congress will claim a much more real part in tariff legislation than that assigned to the Reichstag. The actual schedules of duties, therefore, will be determined, as heretofore, by Congress, and the function of the new Commission will be to collect and to systematize the facts without which the framing of a satisfactory tariff is impossible.

One of the problems to be dealt with by such a Commission is that of classification. Owing to the tendency in modern tariffs towards a greater specialization of rates, this problem has become increasingly complex. The German tariff of 1906, for instance, contains 946 items as against 387 items in the tariff of 1879; the last Austrian tariff contains 657 as compared with 356 in 1882. The Swiss tariff in 1891 contained 723 items, which were increased to 1,164 in 1902.

This greater specialization illustrates the growing diversity in industrial processes and products, and, unless this minute division into classes, each liable to a different rate of

duty, were made by the framers of the tariff, the effect would be to include in one large group articles of which the nature and value vary very widely, the consequence being, under a system of specific duties, that the cheaper varieties would be taxed at a higher rate in proportion to their value than the dearer varieties. Such a result, in spite of the apparent commendation of Friedrich List, is open to obvious objection.

The following table will convey an idea of the extent to which the specialization of rates has been carried in the Tariffs of the great commercial countries : —

Country.	Number of Tariff Ratings.	Country	Number of Tariff Ratings.
Australia . .	450	Roumania . .	854
Austria . .	657	Russia . . .	218
Bulgaria . .	562	Servia . . .	670
Canada . .	751	Spain . . .	718
Denmark . .	301	Sweden . . .	1,311
France . .	654	Switzerland . .	1,164
Germany . .	946	Union of S. Africa	175
Japan . .	647	United States .	481
Norway . .	753		

One fact which most modern tariff framers are compelled to keep in view is that the schedules compiled by them are intended to form the basis of negotiations with other countries. It is therefore found desirable on that account that, instead of a few large groups of articles there should be a greater differentiation, in order that, when a reduction of duty is made to a foreign country in respect of a particular article, the concession may be as limited as possible and may not involve a reduction of the duty on other cognate articles, as would be the case if the tariff were not so minutely classified. The effect of this policy upon the operation of the Most Favoured Nation clause has been indicated in the previous chapter. In many instances the maintenance of the duty on certain grades of a commodity is regarded as being just as desirable as the reduction of the duty on other grades, and in this way specialization becomes a most useful weapon in the hands of the tariff legislator. For the effective use of such a weapon expert knowledge of no ordinary character is required. The increasing importance of tariff specializa-

tion, and the necessity for the employment of trained specialists in carrying it into practical effect, may be illustrated from one of the most recent tariffs, that of France. One of the most significant alterations affecting the interests of British exporters to France was the change in the classification of high speed steels. The following extract from the tariff schedule in question will show the subdivisions made :—

Special Steel containing at least :	Maximum Tariff.	Minimum Tariff.
	fr. c.	fr. c.
0·5 % of nickel	22·50	15·00
0·5 to 6 % of chromium.	22·50	15·00
0·5 to 6 % of tungsten .	22·50	15·00
0·2 to 2 % of molybdenum	22·50	15·00
0·1 to 0·5 % vanadium	22·50	15·00

The introduction of such conditions into the schedule exemplifies the growing complexity of tariff classification. The objection on the part of Sheffield steel exporters

to this classification was not merely because of the actual duty payable under the revised schedule but by reason of the difficulties in ascertaining the precise percentage of tungsten, chromium and molybdenum by the French Customs Department, which are considerable, giving rise to friction which under the old classification did not exist. But to the framers of a tariff such considerations are subservient to the general aim of excluding or checking imports from a given source. Another similar instance is that of steel wire, which, under the former French tariff, was assessed for duty according to its weight and gauge, both of which can be readily estimated. The new classification, however, is as follows :—

Wire of iron or steel, whether tinned, coated with copper or zinc, or galvanized or not, whitened or not, of less than 70 kilograms of resistance per square millimetre section :—

	Maximum Tariff.	Minimum Tariff.
	fr. c.	fr. c.
Of more than 2 millimetres in diameter—per 100 kilogs. . . .	10.50	7.00
More than 1 and up to 2 millimetres in diameter—per 100 kilogs.	15.00	10.00
More than $\frac{5}{10}$ of a millimetre and up to 1 millimetre in diameter—per 100 kilogs.	18.00	12.00
$\frac{5}{10}$ or less of a millimetre in diameter—per 100 kilogs.	30.00	20.00

One of the characteristics to be taken into account is, it will be observed, the capacity possessed by the wire for conducting electricity, the determination of which is attended with some difficulty. These examples, which might be multiplied, will suffice to show that, whilst the greater specialization of a tariff undoubtedly adds to its scientific precision, it does not tend to diminish the difficulties of administration, and, having regard to the necessity for expert knowledge in modern tariff-making, it will be recog-

nized that the step which has been taken in the appointment of a permanent tariff commission in the United States is one which could not with advantage have been long delayed.

The Commission which sat in the United States in 1882, to which reference has already been made, was confronted with many problems of classification and definition, and the way in which the Commission attempted their solution is most instructive, although some of the problems remain still unsolved. One of the items of the tariff, for instance, read as follows :—

“ On all goods, wares or merchandise made of silk or of which silk is the component material of chief value, irrespective of the classification thereof for duty by or under previous laws :—

“ Sixty per cent *ad valorem*.”

The comments of Mr. French, the Assistant Secretary to the Treasury, upon this apparently simple item are worthy of note.

“ It would not occur to you perhaps,” he remarked to the Commission, “ at the first blush, that there was any difficulty in finding out whether

silk was the component article of chief value or not, but we have found the utmost difficulty in determining that question. The appraisers and examiners, who look at the goods in the first place, have great difficulty in determining the actual proportions that enter into it and to get an analysis where the question runs close. Besides that, there came this question—what did the words ‘chief value’ mean? Must the article be more than half silk, or must the silk be only more than either of the other components, to come under that designation. That question nobody could settle. The Commission here would be puzzled, for I have no doubt that any two of the Commissioners would be as likely to disagree as to agree upon this point. This question was sent to the Attorney General, and he gave his opinion (which is not binding on any court or jury) that silk was the component material of chief value if there was more silk in it than any other material, and that we understand to be the law now, or rather, that is the rule of the Department on the question—if the article is not half silk, but has more value of silk than any other component in it, silk is the component material of chief value.”

Another of the items of the tariff read as follows :—

“All wool, hair of the alpaca, goat or other like animal.”

This seems a simple item, but in connexion with it the question arose—what is a “like animal” to a goat? Upon this point the president of the commission was of opinion that “it would require the writing of a whole book to settle it.” The phrase is still used in the American tariff schedule; presumably its precise connotation has now been determined.

Such were some of the problems which engaged the attention of the 1882 Commission, and although conditions have changed since then, the question of definition and classification increases rather than diminishes in difficulty. The author’s attention was drawn in Washington to a question which was under consideration by the Department in 1910; it supplements in an interesting fashion the examples just given of departmental difficulties. Under one item of the tariff—

“Herrings, pickled or salted, smoked or kippered,”

are chargeable with a duty of half a cent per lb. But, under another item of the tariff,

“Fish (except shellfish) by whatever name known, packed in oil, in bottles, jars, kegs, tin boxes or cans,”

are liable to a duty ranging from $1\frac{1}{2}$ to 10 cents per package according to its size. There had just been imported into one of the ports of the United States some kippered herrings in tins, and the question arose—under which of the two tariff items just quoted should they be assessed for duty?

The assistance which a commission of experts can render is shown by the recent experience of France and Japan as well as of Germany. The new Japanese tariff in particular bears very evident signs of the manner in which a commission of specialists, at work for several years, can pick out the vulnerable points of the trade and industry of foreign countries and can adapt their schedules to attack those points with every prospect of success. With regard to the Tariff Commission which has been at work in England since 1904, this is not an official body and is working under very different conditions from the commissions appointed by the State in other countries.

The attention of a permanent Tariff Commission must of course be given in due proportion to all aspects of the tariff, but it seems probable that for some years to come, much of the time of the new Commission in the United States will be given to an investigation of the cost of production in other countries of commodities which compete with those produced in the United States. Special interest attaches to the downward revision of the Tariff which President Woodrow Wilson is expected to inaugurate, but, whether Democrats or Republicans be in power, it is not likely that free-trade principles as understood in the United Kingdom, will prevail, and the aim will be to limit the amount of protection afforded to the various industries to the minimum supposed to be required to offset the lower costs of production in competing countries. To determine what those costs of production actually are is no light task, though its difficulty will only be appreciated by those who realize the paucity of authentic data at the disposal of the investigator. Such an investigation was, however, commenced in 1910 and

whether the theory of protection with which it is associated be fallacious or not, the capable men whom President Taft has appointed may be relied upon to bring to the work trained and impartial minds.

III

AD VALOREM AND SPECIFIC
DUTIES

CHAPTER III

AD VALOREM AND SPECIFIC DUTIES

THE general advantages and disadvantages of *ad valorem* duties as compared with specific duties are indicated in several of the current works on the tariff question. The observations offered in these pages will be confined to a survey of the problem from the administrative standpoint, with special reference to actual appraisement practice in the United States and Canada.

One of the obvious differences between the tariff schedule of Germany or most other European countries and that of the United States is that, whilst the former is made up mainly of specific duties, the latter contains a large proportion of *ad valorem* and compound duties. These two types of duty represent two distinct principles of tariff administration and there is a vital differ-

ence in the administrative methods by means of which they are carried into effect. Under an *ad valorem* system, the amount of duty chargeable varies directly as the value of the imported commodities, and its incidence is thus uniform whether the goods be dear or cheap. Provided that there could be guaranteed, on the one hand, purity and efficiency of administration and, on the other hand, absolute integrity on the part of the importers, the balance of advantage would undoubtedly lie with the *ad valorem* system from the economic point of view. Even from the administrative standpoint, being more elastic and self-adjusting than specific duties, *ad valorem* rates possess great advantages, and, by equalizing the incidence of the duties on the various qualities of the same class of goods, they obviate the necessity for much of the preliminary work of classification which is entailed in the preparation of a specific tariff. In the United States, opinions as to the merits of the *ad valorem* system have differed widely, but it has been retained for the most part, although now supplemented by a large number of

compound duties, that is, *ad valorem* and specific rates combined. Even tariff experts who are daily brought face to face with the administrative difficulties of the *ad valorem* system are by no means unanimous in condemning it and, as regards the commercial community, the introduction of a specific tariff would mean a revolution in business methods which, in spite of the adaptable organization of American industry, would be far from welcome in some of the most influential circles. But, when allowance has been made for the undoubted merits which the *ad valorem* system would possess under ideal conditions, it is necessary to recognize that those conditions do not exist. Not all importers are honest and not all government officials are incorruptible. The consequence is that the history of the United States tariff reveals a continuous series of attempts at under-valuation, smuggling, corruption and fraud which reflect very unfavourably upon the American commercial conscience. It would be surprising if the officers of the Federal government, holding office, for the most part, on a

somewhat precarious tenure, had been able invariably to resist those attempts. Even if the Customs officers were always men of unimpeachable integrity, the task imposed upon them would be an almost impossible one. Under any tariff system it is necessary to ascertain the precise nature and quantity of the imported commodities, but when to this is added the determination of the value of goods varying infinitely in description and quality, in grade and texture, in rarity and artistic effect, in all those innumerable particulars which affect supply and demand, the judgment of the most honest and expert appraisers is necessarily sometimes at fault. At a large port like New York, and to a less extent at ports like Philadelphia and Boston, the problem is simplified by the specialization of the appraisers' functions. The men there employed on the work of valuation are officers with an extensive technical knowledge, an intimate acquaintance with the condition of the markets both domestic and foreign and a thorough familiarity with rates of freight, insurance and trade commissions. The employment of such experts

is, however, impossible at many of the ports at which imported goods may be entered for appraisement, and although it is the practice to refer doubtful cases to the trained valuers at a larger port, there must be many cases in which the proper duty is evaded. This uncertainty stimulates the importers' natural tendency to under-valuation.

Attempts at under-valuation seem indeed to be the inevitable outcome of the *ad valorem* system. A large proportion of the goods landed in New York are sent for sale at the best price which can be obtained, and there is consequently no fixed value on importation. The handling of these consignments is largely under the control of men who are not citizens of the United States but are foreigners residing, temporarily or permanently, in New York, and possessing but little scruple with regard to attempts to defraud the Federal Government. Ever since the Act of 1818, when the system of appraisement was established, the problem has been one which has taxed the genius of America's most astute administrators, whose aim has been to devise regulations incapable of

evasion and particularly to provide against the possibility of collusion between the importer and the Customs officer. But, in spite of carefully drawn regulations, frauds of magnitude have from time to time been brought to light, and have tended to show, not only that regulations are of little avail where the standard of civic morality is low, but that the possibilities and effects of the low moral standard are greatly enhanced by an *ad valorem* system of Customs duties.

The principal existing safeguards against under-valuation provided for by the regulations of the United States Customs Department are :—

(a) The production of certified invoices in respect of imported goods, supplemented by the importers' declaration.

(b) The valuation of the goods by expert officials of the Department.

With regard to (a), except in the case of personal effects accompanying a passenger, no importation of any merchandise exceeding one hundred dollars in value is admitted to entry without the production of a duly certified invoice. Such invoices must, be-

fore shipment of the goods, have been produced to the consular officer of the United States in the country from whence the goods were shipped and endorsed with a declaration of the " purchaser, seller, manufacturer, owner or agent " setting forth that the invoice is in all respects correct and true, and giving precise details as to the terms on which the goods are supplied and shipped. On arrival of the goods in the United States a declaration as to the truth of the invoice must be made by the consignee, importer or agent, or in certain cases by the manufacturer or owner.

It will be seen that the regulations are so framed as to close every loop-hole of escape from the correct entry of the goods. Yet, on the part of those whose judgment is most valuable, a pronounced pessimism prevails as to the real effect of this safeguard. There is more than a suspicion that many of the invoices are either wilfully fraudulent or are attested by partners or clerks not personally acquainted with the value of the goods. It is alleged indeed that many manufacturing firms and mercantile houses in Europe

have junior partners who are purposely kept ignorant of the real facts with regard to goods exported to the United States so that they may testify on the invoices "to the best of their knowledge and belief." With reference to the consular check on the invoices, this is regarded by high officials as a merely nominal one, in which the Consul himself is chiefly interested from the point of view of his own fee, and which is of little or no value from the revenue standpoint.

With regard to the second safeguard (*b*), namely, the valuation of imported goods by expert officers of the Customs Department, this is undoubtedly more effective than the invoice and declaration. It is the duty of the appraisers "to ascertain, estimate and appraise the actual market value and wholesale price of the merchandise at the time of exportation to the United States in the principal markets of the country whence the same has been imported." The particular packages which are to be sent to the appraiser for valuation are designated by the collector on the entry and invoice,

and it is the rule that at least one package of every invoice is so designated and not less than one package in ten.

At the "Appraiser's Store" in New York are received, every week of the year, thousands of packages representing the importation of all classes of commodities. A detailed account is kept of the receipt and delivery of these packages and of their assignment to the respective divisions of the "Store," the goods being, for the appraisal itself, divided into many different classes. A minute specialization of the work is thus rendered possible and experts in close touch with the technical details are able to deal with each particular commodity.

The Appraiser's Department includes twelve main "Divisions," to each of which is assigned the appraisal of certain specified articles. The articles dealt with in a Division are, for the most part, related to each other in character, although the variety of imported commodities is such that this is not always possible. The Eighth Division may be selected at random as an example, and the following list shows the

articles sent for valuation to the appraisers of that Division :—

- Artificial fruit (not millinery).
- Automatic figures.
- Balls ; rubber and toy.
- Boxes ; cotton-covered and silk, only.
- Candied or crystallized flowers.
- Candle cuffs.
- Christmas tree ornaments.
- Christmas stockings.
- Chocolate.
- Cocoa, manufactured.
- Confectionery.
- Cribbage boards.
- Cymbals.
- Dice, chessmen, and draughts.
- Dolls, and parts of.
- Glucose.
- Hard rubber ; honey.
- Jews' Harps.
- Lamp shades (except porcelain, china and glass).
- Magic lanterns and slides (toy).
- Maple sugar and syrup.
- Masks of silk.
- Mirrors (toy).
- Molasses.
- Musical instruments and parts of.
- Pianos and piano actions.
- Poker chips.

Roulette.

Rubber erasers.

Slates, slate pencils and books.

Strings for musical instruments.

Sugar and sugar cane.

Toffee.

Toys.

Treacle.

Tuning and zither pins.

Violin resin and strings.

Wax figures.

To master the details of the actual appraisement would require the study of a lifetime, but even a brief survey of the general principles which underlie the system and of the main features of its organization, is highly instructive, for the Appraisers' Store is the centre of the whole system of *ad valorem* duties. One important aspect of appraisement work is the relation between the accumulated personal knowledge of the appraiser himself and the supplementary aids to correct valuation with which he is officially supplied. The price lists and other guides are sometimes specially compiled by the American consul in the foreign country

from which the goods concerned are chiefly imported, and, if carefully made up, and periodically revised, they are a most valuable auxiliary to the expert valuer. The appraiser learns by experience the significance to be attached to the invoice declaration in respect of particular varieties of goods, and, by his daily contact with those engaged in the trade, he acquires a familiarity with commercial methods and peculiarities which assists him materially in assessing values. Many of the appraisers themselves are originally drawn from the ranks of the commercial community, thus bringing to their official duties an acquaintance with their particular branches of trade which they could not readily acquire either from theoretical study or from experience within the Department. In many cases, they eventually return to the commercial world, rendered more valuable by their knowledge of the official methods of appraisal and attracted by higher salaries than they are likely to obtain from the Department. This appears to be one of the defects in an official machine of remarkable efficiency.

Appraisement is work for the specialist and the expert, and it is not possible to employ in connexion with it the ordinary Customs officer, except for tasks of a more or less routine character. For example, in the assessment of the duty on paintings, on which the *ad valorem* duty is fifteen per cent., technical knowledge of a high order is required. The regulations in regard to the importation of pictures provide that paintings over twenty years old shall be admitted free of duty. In one respect this regulation relieves the appraiser of much work, but, on the other hand, it places upon him the responsibility of deciding whether a picture has attained the prescribed age or not. If he decides that it is not over twenty years old, there remains the delicate task of assessing its value. Officials who may be called upon to determine promptly the genuineness of a Reynolds or a Rembrandt, or to place a value upon an example of Whistler, must keep themselves abreast of contemporary knowledge in matters of Art. Turning to an entirely different, though not less important, example of the appraisers' work,

the valuation of textile goods, an intimate acquaintance with trade methods and conditions is obviously essential, and in this department, numerous instruments for the counting of threads and similar functions, are constantly in use. The imported goods are, in this case, more conformable to standard patterns than in the case of pictures, but, though the range of values is less, the variety of grades and textures is almost unlimited, whilst the work of appraisement is rendered extremely important by reason of the onerous nature of the textile tariff schedules. In the printed books division the appraiser works, not merely amongst volumes of the ordinary variety, but amongst first folios and ancient volumes imported by American collectors. The correct appraisement of such books presupposes extensive knowledge and the margin of probable error is considerable, for it is clear that in such cases the ordinary criteria of supply and demand cannot readily be applied. Many of the divisions in the Appraisers' Stores at New York possess libraries of their own, containing a selection of works dealing

with the particular class of articles with which the division is concerned.

The staff of the Appraisers' Store in New York comprises over five hundred officials. Not all of these are employed in the actual work of valuation as there is necessarily a good deal of subsidiary work to be done, requiring care and scrupulous honesty without calling for expert knowledge. Considering the nature of the work, the staff is not remunerated at an extravagant rate. The Chief Appraiser receives 6,000 dollars a year, while ten Assistant Appraisers receive 3,000 each. Below these there are twenty-three examiners at a salary of 2,500 dollars, and seventy examiners receiving from 1,800 to 2,400 dollars a year. Whether this relatively low scale of pay is adequate for work which offers such opportunities for expert skill on the one hand and for deliberate fraud on the other, is a question upon which the Washington authorities are best qualified to judge. But there can be no doubt that the appraising staff forms the keystone of the *ad valorem* system viewed from the standpoint of administration. If it consists of

honest and skilful officials the disadvantages of the system may be minimized ; if on the other hand, the appraising staff is open to the slightest possibility of corruption, the *ad valorem* system is hopeless from the point of view of economical and efficient administration.

The decision of the appraisers at any port of the United States as to the value of a given article is not final ; if the importer be dissatisfied he may appeal to a special body in New York known as the Board of General Appraisers. This body consists of nine men appointed by the President. None of the General Appraisers may be engaged in any other business, and not more than five must be appointed from the same political party. They are removable by the President for neglect of duty, malfeasance in office, or inefficiency, but for no other cause. Each of them receives a salary of nine thousand dollars per annum. Three of these General Appraisers must be on duty at New York every day, and they have full powers to hear and determine all cases of appeal as to the rate or amount of duties chargeable on imported merchandise.

Ad valorem duties outside the United States.

The methods employed in the collection of *ad valorem* duties in Canada bear a general resemblance to those of the United States. The difficulties in Canada are not diminished by the existence of numerous Custom Houses situated in small inland cities, which have in many cases been established, not because they are essential to the due collection of the revenue, but as the result of political pressure, and, in some instances, with a view to magnifying the importance of the towns in which they are situated. The smaller the Customs staff, the greater is the possibility of error in questions of appraisement, as it is impossible for the members of a small staff to specialize in the valuation of special classes of commodities.

The system adopted by the Government of India in connexion with *ad valorem* duties has peculiar features. The duties themselves are moderate compared with those of the United States or Canada, and in the case of many articles, they do not exceed 5 per cent. The tariff schedule, in addition to fixing the rate of duty, prescribes also a standard tariff

valuation for certain articles, with reference to which the duty on those articles is assessed. The advantages of this simple expedient are obvious, but there are several drawbacks to such an arbitrary system. Valuation by such a method has no necessary relation to the state of the market in the particular commodity affected, and the incidence of a given duty is heavier than was intended by the Government when the actual market value is below the standard valuation, and not so heavy when the price rises to a higher level. With the limited duties of the Indian tariff, possibly little hardship is felt, but it is doubtful whether, elsewhere and in other circumstances, such a system would be sufficiently responsive to the fluctuations of trade or prove satisfactory either to the mercantile community or to the Government. That the prescribed standard valuation differs from the actual market value of imported goods is admitted in the Forms of Entry approved by the Indian Customs Department, which provide one column for the official valuation and another for the "real value" of the goods. Perhaps the only

country of commercial importance in which any comparable system prevails is Turkey, where, with a uniform *ad valorem* duty of 11 per cent. the values of imported articles are fixed by agreement between the Customs Administration and the principal merchants concerned.

Right of Pre-emption.

The United States Government at one time contemplated the institution of a further safeguard against the danger of undervaluation by adopting a plan which has found favour with the tariff administrators of certain European countries. The original draft of the Tariff Act of 1846 contained a provision which empowered the collector of Customs, in any case of suspicion that the importer had entered his goods at too low a value, to seize them and to sell them by auction within twenty days. The proceeds of the sale were to be retained by the Government, the importer receiving a sum equal to a percentage of the value as shown on his entry. But, when the bill came before Congress, this section was omitted.

Although this method of protecting the Revenue has not been instituted in the United States, the principle has been adopted by several European nations, but, as the continental tariffs are tending to become more and more specific in their duties its effective operation is somewhat restricted. A brief description of the system in Belgium, where it was introduced by the Franco-Belgian Treaty of 1861, will give some idea of its actual working.

Under such a system if the authorities deem insufficient the declared value of any goods, they have a "right to pre-empt," that is, to retain the goods on paying the value declared with the addition of 10 per cent. within fifteen days of the declaration. The duties which may have been paid by the importer are refunded to him, and he receives a written notification from the Customs that the right of pre-emption has been exercised. On receipt of this, he has the right, if he thinks fit, to claim a re-valuation of the goods by experts, provided he avails himself of this right without delay; in default of an immediate claim, he re-

nounces the right to expert re-valuation. If his claim is allowed, the importer nominates one expert, and the collector of Customs another. A third may be chosen if the importer desires it, or if the two other experts fail to agree ; this third judge is generally nominated by the two other experts. Unless the value stated on the declaration is found to have been under-stated to the extent of 5 per cent., the cost of the re-valuation falls upon the Customs Department, and the duty is collected on the declared value of the goods. If the experts find that the value has been under-declared by 5 per cent. or over, the Customs either pre-empt or collect the duty on the value as found. Should the former course be adopted, the department pays to the importer within fifteen days of the decision the declared value plus 5 per cent. But, if the Customs decide not to pre-empt, the tax is collected on the full value, subject to a provision that if the full value found is not more than 10 per cent. additional, the department waives its claim to half the additional duty. The responsibility for deciding between pre-

emption and collection of the duties rests generally with the local collector of Customs, though in certain cases it is reserved for superior officers. Provision is made for the cancellation of pre-emption if it is recognized by the higher authorities that the circumstances are such as not to justify the exercise of the right.¹

Although such a right of pre-emption, held in reserve for discreet use when occasion requires, may in some circumstances be desirable from the administrative point of view, it is possible that its exercise may be attended with grave injustice to importers and to the commercial community generally. In any case, its justice and its effectiveness as a revenue safeguard obviously depend upon the good judgment of the Customs officials. There is also, quite apart from the interests of the importer, the risk of a prejudicial result to the revenue from the possibility that the goods may fail to realize, at the subsequent sale by auction, the figure which has been paid by the Customs authori-

¹ *Manuel de Législation douanière belge.* O. Orban.

ties to the importer. It is probable, therefore, that, on the whole, the absence of the right of pre-emption from the Customs administrative law of the United States is an omission which may rightly be regarded with equanimity by those responsible for the collection of the revenue.

Compound Duties

Before turning to the question of specific duties, attention may be drawn briefly to the compound duties which have been introduced in the United States. A compound duty consists of a fixed rate of duty on a prescribed unit of number, weight or measurement, to which is added a supplementary *ad valorem* duty. Instances are the United States duties on :—

Hats and bonnets valued at more than 18 dollars per dozen.	$\left\{ \begin{array}{l} 7 \text{ dollars} \\ \text{per dozen} \\ \text{and 20 per cent. } ad \\ \textit{valorem}. \end{array} \right.$
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Clothing, ready made, of wool.	$\left\{ \begin{array}{l} 44 \text{ cents} \\ \text{per lb, and} \\ 60 \text{ per cent. } ad \\ \textit{valorem}. \end{array} \right.$
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By this method it is sought to combine the advantages of the *ad valorem* with those of the specific system, and possibly, to disguise to some extent the real nature of the duty imposed and the protection conferred. From the administrative standpoint compound duties add the difficulties in the collection of specific rates to those which are peculiar to *ad valorem* duties, and, although possibly more equitable in their incidence, they cannot be said to make the actual working of the tariff schedules any less cumbersome or expensive.

SPECIFIC DUTIES

However admirable the *ad valorem* system may be from the theoretical point of view, the balance of advantage lies, from the standpoint of scientific tariff administration, under actual modern conditions, on the side of specific duties. Those duties have, of course, their peculiar disadvantages. It is often impossible even for those with long and intimate experience of a particular industry to estimate with accuracy the precise effect which given specific duties may pro-

duce. As already mentioned, it was found necessary to consult two thousand technical specialists representing the various subdivisions of trade and industry in the preparation of the last German tariff, the rates in which are almost entirely specific. Again, the incidence of specific duties upon the various grades of goods is so irregular as to be inequitable. With a specific duty of seven shillings per lb. upon imported cigars, for instance, as in England, it is clear that the smoker of the threepenny cigar is contributing to the national revenue a far greater amount in proportion to his means, or at any rate to his expenditure, than the purchaser of the genuine Havana. The attempts of the legislator to impose a given proportion of his taxation upon particular classes of the community are thus, under a system of specific duties, to a great extent frustrated. The specific system also implies a much more elaborate and detailed classification of the tariff schedule than is necessary on an *ad valorem* basis of assessment.

But when these difficulties have been admitted, there are many considerations which

tell in favour of the specific system, and it is easy to understand why Germany, after retaining *ad valorem* duties for many years, has now almost entirely abandoned them, and why France, Italy, Belgium, Austria and Russia have all adopted, in the main, the method of assessing duties on a specific basis. It would be interesting to inquire whether the adoption of specific duties by certain countries or the retention of *ad valorem* duties by others, has been influenced by any purely local considerations. Possibly it would be true to say that whereas the democratic institutions of America favour the free, more elastic and more equitable *ad valorem* duties, the orderly and scientific mind of Germany has naturally led to the adoption of the system which presents greater advantages from the administrative point of view.

The chief advantage by which the specific system is recommended to the tariff administrator is that it dispenses with the necessity for the elaborate appraisement machinery such as has been described as existing in the United States and Canada. The specific

tariff schedule, it is true, needs to be framed with greater care for detail and a more minute classification of commodities, but, when so framed, it is more easily put into practice. Nor does it afford those opportunities for errors of judgment or for clandestine fraud to which the *ad valorem* system lends itself. The only factors which the Customs officer is called upon to consider are the weight or measurement of the goods and the rate of duty to be applied. Of course even these give rise from time to time to difficult questions of definition and classification, but the difficulties are neither so numerous nor so great as in those cases where the elusive problem of value has also to be solved. It cannot be said that fraud is impossible under the specific system, for the commodity in connexion with which huge frauds were recently perpetrated in the United States, namely, sugar, is one upon which a specific and not an *ad valorem* duty is there levied. But, on the whole, the specific system offers much less inducement to deceit and dishonesty than the *ad valorem* system. These considerations naturally weigh very heavily

in estimating the merits of the two systems from an administrative standpoint, and, although the United States and Canada have chosen to adhere to their own system rather than to come into line with the modern movement towards specific duties, it is more than doubtful whether they have gained by so doing, and it is conceivable that at no distant date their statesmen may discover that revenue, commercial integrity, and the efficiency of the public departments are best safeguarded by a system of specific duties.

IV

BONDED WAREHOUSES AND
FREE PORTS

CHAPTER IV

BONDED WAREHOUSES AND FREE PORTS

PROVISION is made in most tariff systems for the deposit of imported goods, where so desired, in bonded warehouse, duty being paid only when the goods are taken out of bond for home consumption. If the goods are re-exported, payment of duty is not required. The advantages of this system are :—

(a) The postponement of the payment of duty until the time most convenient to the importer or owner of the goods, and the consequent saving of interest upon capital which might otherwise be sunk in the premature payment of duty.

(b) The stimulus to transit trade which results from the provision for the deposit of goods in bond pending their re-exportation.

Whether the bonded warehouses in which

dutiable goods are deposited should be owned by the government or allowed to remain in private hands is a problem which has been variously solved in different countries. Germany possesses both public and private warehouses, the latter being subjected to rigorous official supervision, and kept as is the case in the United Kingdom, under the joint lock of the government and the warehousekeeper. In France a large number of the warehouses (*entrepôts fictifs*) are in private hands, though there is a disposition to concentrate the bonding privileges under the control of public or quasi-public bodies. The same remark applies to Italy. Holland has both public and private warehouses, whilst in the United States the bonded warehouses are almost entirely privately owned.

The bonded warehouses in the United Kingdom are now exclusively in the hands of private warehousekeepers, assuming the latter term to include such bodies as the Port of London Authority and the Mersey Docks and Harbour Board. They are responsible to the Crown for the safe custody

of the dutiable goods and give bond in an appropriate penalty, which varies with the extent of the premises and the nature of the goods to be stored therein. To this bond it is usual to require either one or two sureties, as to whose sufficiency the Customs and Excise Department must be satisfied before they are accepted. This system, supplemented by adequate official supervision of the warehouses, is found to work well, and it is exceptional to find a warehousekeeper who does not fully realize and carry out his responsibilities to the Crown. These privately-owned warehouses are, for the most part, open for the storage, not only of goods belonging to the warehousekeeper himself, but also of dutiable merchandize for which bonding facilities are desired by other traders.

It has not always been the practice, however, to entrust the bonded warehouses of the United Kingdom to private custody. Prior to the year 1860, the warehouses used for the storage of tobacco were in the hands of the Crown, and it is a significant comment on the State monopoly of privileges prized

as lucrative by the private warehousekeeper that there was then a loss to the Crown of nearly £30,000 a year, owing to paying large rents or interest in connexion with the warehouses and receiving only a nominal rent for the storage of tobacco therein.

One interesting feature introduced into the English warehousing system at an early period has been reproduced and still exists in the bonding systems of other countries, although in England itself, it has long since disappeared.¹ This is the requirement that all warehoused goods must be cleared from bond by the owners within a limited period from the date of their being warehoused. For a long time the prescribed period in England was three years. Five years has been assigned as the maximum period of storage in the public general warehouses of Prussia, whilst in the "limited warehouses" which prevail where no public bonded warehouse exists, goods must not be stored, as a rule, for a longer period than six months. In the United States the period of storage is

¹ See Appendix B—"Historical Note on the Bonded Warehouse System."

fixed at three years. Whatever may be the merits of such a limitation from the revenue standpoint, it is clearly inconsistent with perfect freedom of trade, and, by compelling the owner of the goods to take them out of bond within a specified period, without reference to the state of trade or to the condition of the markets, it tends to counteract the undoubted advantages of the warehousing system.

An extensive tariff such as that of the United States or Germany requires appropriate modifications in the bonding system. The method of *admission temporaire*, which is applied in France to certain imported goods, is also an interesting development of the bonding principle ; a number of commodities, which are specifically enumerated, are admitted for a limited period for re-manufacture or improvement, without payment of duty, on condition that they are re-exported after having undergone a further industrial process. The advantages of temporary admission cannot be given to any industry without legislative sanction, which is generally preceded by special inquiry and

a report from the Consultative Committee of Arts and Manufactures.

In the United States the bonding system is extensively developed. The warehouses there fall into seven classes as follows:—

(1) Warehouses which are owned or leased by the government and used for the storage of seized and unclaimed goods and which are known as “General Order Warehouses.” These correspond roughly with the “King’s Warehouses” under the control of the English Customs Department, and are not bonded warehouses in the strict sense of the word.

(2) Importers’ private bonded warehouses occupied exclusively for the storage of imported merchandise owned by the proprietors and entered in bond.

(3) Bonded warehouses used for the general storage of imported goods. A warehouse of this class consists of an entire building or of a part of a building entirely separated from the rest of the building by suitable partitions or walls and with an internal means of communication.

(4) Bonded yards or sheds for the storage

of heavy and bulky imported merchandise.

(5) Bonded bins or parts of buildings or of elevators to be used for the storage of grain.

(6) Warehouses for the manufacture in bond solely for exportation of articles made in whole or in part of imported materials or of materials subject to internal revenue tax; also for the storage of rice intended for export.

(7) Warehouses for smelting and refining of imported ores and crude metals intended to be exported in a refined but unmanufactured state.

The official supervision of these warehouses is necessarily close, having regard to the variety of the dutiable goods which are allowed to be stored and the amount of revenue involved. All bonded warehouses are placed in the custody of official storekeepers, who always keep the keys in their own possession and personally superintend the opening and closing of the doors and windows. These storekeepers are in constant attendance from 8 o'clock a.m. to 5.30 p.m. They supervise the receipt, delivery, sampling and packing of goods, keep accounts in

detail of all goods received, delivered and transferred, and generally ensure that the regulations are duly observed.

The manufacturing warehouses which are comprised in Class 6 have a special interest. They offer in a limited degree the facilities which are afforded on the Continent of Europe by the "free ports" and allow of the manufacture in bond of articles intended for export without necessitating the payment of duty. Before commencing business the proprietor of a bonded manufacturing warehouse is required to submit to the Secretary of the Treasury a list of all the articles intended to be manufactured, giving the specific names under which the articles are to be exported and under which they will be known to the trade, and stating the names of all the ingredients entering into the manufacture of such articles with the quantities of such ingredients or materials as may be dutiable. The proprietors of such warehouses are required to conform strictly to the formula filed with the bonds; and in no instance is an article permitted to be manufactured in, or withdrawn from, the ware-

house which does not contain all the ingredients and in the quantities specified in the formula of manufacture or which contains any other article than those specified in the formula. It will be noticed that the facilities allowed in respect of goods manufactured in bond apply to articles intended for exportation either direct or indirect. The effect of this provision together with that of the regulations governing the grant of drawback, is to afford powerful encouragement to the export and transit trade of the United States. It has already been shown, in treating of the double tariff system, that the United States has realized the necessity of cultivating her export interests as well as her domestic industries, and there can be no doubt that her warehousing system, modelled upon the English system and yet presenting characteristic features of its own, and supplemented by an elaborate system of drawbacks, has tended to develop her foreign trade, and to minimize, so far as regards external commerce, the disadvantages of a highly protective tariff.

FREE PORTS

The original "free ports" of Continental Europe are mainly survivals from the Middle Ages, and present a feature of tariff administration which is entirely absent in America, although proposals for its introduction there have from time to time been made. The principal free ports and free districts are as follows :—

GERMANY.

Free Ports :—Hamburg, Bremerhaven, Cuxhaven and Geestemude.

Free Districts :—Bremen, Stettin, and Dantzig.

AUSTRIA.

Trieste and Fiume.

DENMARK.

Copenhagen.

ROUMANIA.

Sulina.

In addition to the above, an extensive scheme has been prepared for the creation of a free zone within the port of Marseilles, whilst

at Genoa the Deposito Franco, an extensive bonded area within the port, is really a continuation of the old Porto Franco, which dates back to the commencement of the commercial history of Genoa.

Hamburg presents the characteristic features of the free port system and may therefore be selected for a more detailed description. In the year 1888, this port, which had formerly constituted an independent fiscal area as one of the old Hanse towns, was formally annexed to the German Zollverein, with the exception of an area of 2,500 acres of land and water, which were reserved for a "free harbour." The free port district comprises the North Elbe at Hamburg, the harbours and quays there together with a portion of the adjoining streets and blocks of houses, and the islands in the River Elbe opposite the city including the Island of Steinwarder. Inside this area the movement of vessels and merchandise is exempt from all Customs supervision, and the construction of industrial establishments is subject to no special control. Buildings belonging to the free port, however, are not allowed

to be used for retail trade or for dwellings, except those necessary for warehousekeepers and for port, customs, and police officers.¹

A line of custom houses is built around the free port area, the frontiers of which are guarded by Customs officers. The arrangements for the collection of import duties on goods passing between the free port and the Zollverein area outside are very complete and allow as great elasticity for trade and commerce as is consistent with the safety of the Revenue.

Such goods may be declared on importation to the custom house at which they enter into the territory of the German Zollverein, the duty, if any, being paid on the spot. This can be done by paying the amount of duty to the Customs immediately, or the importer of the goods may have a current account against a deposit made by him in the form of German Government securities with the Customs Department, the amount of the duty in such case being debited by the Customs to the sender's account. The latter system corresponds in a sense to the gross

¹ Report of United States Consul at Hamburg.

payment system which prevails in England in regard to a large proportion of the clearances of goods from bond.

Or, alternatively, the goods may be imported with a Customs certificate under which they may be forwarded to the customer or consignee of the goods within the Zollverein territory who himself pays duty on delivery. This system is permitted with some freedom to Hamburg firms whose commercial standing is regarded as satisfactory by the Customs Department, without a deposit being required of them. Goods dispatched in transit through Germany to other countries are treated in this way, all being provided with a certificate, and the necessity of the consignor having to pay the duty is thus obviated.

If neither of the foregoing alternatives is convenient, the goods may be imported with a Customs certificate in another form. In this case the amount of the duty is placed on deposit with the Customs authorities at Hamburg by the consignor of the goods. The consignee (the customer of the Hamburg sender) is, however, approached by the authorities on the sender's behalf for a

refund of the duty, and if he refuses payment they then inform the sender accordingly.¹

Such is the method adopted in regard to Hamburg. From the point of view of the trader this system offers many advantages. Not only is the general industrial welfare of the free area fostered by the absence of Customs restrictions, but a powerful impulse is given to *entrepôt* trade. The warehouse proprietors find it possible to reduce their rates for storage and to hold out inducements which it is quite impossible for their competitors to offer in ports which are not free. Those who are familiar with the modern rivalry between neighbouring ports in the pursuit of trade will appreciate how much is involved in the attractions offered by a port where tariff restrictions are at a minimum. As an instance, it may be mentioned that, as the rates of storage at the Hamburg free port are considerably lower than in American bonded warehouses and, as there is no interference in Hamburg by the Customs authorities, large quantities of American spirits were at

¹ Sessional Parliamentary Paper, No. 344 of 1904.

one time permanently stored in the free port, such spirits being kept in store until it was properly matured, when it was re-shipped to the United States. Similar advantages accrue to many other varieties of business.

The free ports of Continental Europe are, however, largely due to survivals of ancient privileges rather than to the creation of new ones, and there are many difficulties, from the point of view of tariff administration, to the organization of a free port under modern conditions. Some of these are exemplified in the case of Dalny in Manchuria. The district of Dalny constitutes what is known as a leased territory (from China to Japan) and Japan has the right of importation into the territory of goods free of Chinese Customs duties. Incessant trouble, however, has arisen owing to the smuggling of goods from the "leased territory" into the interior by means of the railway. As to the best way of meeting this serious difficulty opinions have differed. Some have suggested that the best method is to make the railway authorities responsible by bond or guarantee that no goods shall be carried into the interior

unless covered by a certificate from the proper authorities showing that the duty has been paid. Others favour the establishment of a system of cordons of customs officers such as exists at Hamburg. The free port system—however useful from the commercial standpoint—presents from the point of view of revenue safety, which must always be one of the primary aims of the tariff administrator, problems which are not easily solved. It would be a task of extreme difficulty to adopt the Hamburg system in most other ports without such a transformation of an entire city district as took place when Hamburg was annexed to the Zollverein in 1888.

V

DRAWBACKS

CHAPTER V

DRAWBACKS

CLOSELY allied to the bonded warehousing system in its effect upon external commerce is the method of encouraging a country's export trade by the grant of drawbacks, that is, by a refund of the whole or part of the duty paid upon importation in cases where the merchandise is subsequently re-exported. This method is highly developed in the United States and Canada. A drawback is distinguished from a bounty by the fact that the former never exceeds the amount of import duty which has been paid, whilst the latter is designed to favour native industry by a grant from the national treasury.

In England, where the tariff schedule is extremely limited, the drawback system has not attained the importance which attaches to it in the fiscal polity of other countries,

but Customs drawbacks are nevertheless granted upon the exportation of the following articles of British manufacture or preparation : Beer, roasted coffee, goods containing sugar, and tobacco, cigars and cigarettes. The principle underlying the grant of drawback upon these articles is that the articles shall be such as, being subject to a duty upon importation, have undergone a process of manufacture or preparation in the United Kingdom. Commodities which are imported and re-exported without undergoing such a process are provided for by the bonded warehousing system.

The respective rates of drawback are fixed by legislative enactment, due regard being paid to the amount of the import duty and the circumstances of manufacture in each case. The regulations governing the procedure of the actual allowance are simple, the main requirements being the entering into bond by the exporter for the due shipment of the goods, and the production of the goods to the Customs officer at the port of shipment. Drawback, however, is not restricted entirely to goods

actually exported; on certain articles it is paid on their deposit in a bonded warehouse. The Customs drawback allowed annually on goods exported from the United Kingdom amounts to about one-twentieth of the total Customs Revenue.

The extensive tariff schedule of the United States involves an elaborate drawback system. In one respect the system is simplicity itself, as the rate of drawback on all articles is fixed uniformly at 99 per cent. of the duties paid on importation. So generous an allowance is a powerful stimulus to American export trade, and its importance and significance may be illustrated by the fact that it is sometimes possible for firms trading in the United States to quote lower prices for export than for home consumption, although, in certain cases, this phenomenon is doubtless due to causes other than the grant of a liberal drawback. It is interesting, also, in this connexion, to note that goods are occasionally shipped from the United States to Canada via England on account of the Canadian *ad valorem* duties being levied on the basis of the price current in the country of

sale and not of that in the country of origin.

Drawback is paid on the export from the United States of goods upon which the duty has been actually paid, if exported directly from the uninterrupted custody of the officers of Customs within three years from the date of importation, in the original packages in which they were imported. In the case, however, of imported material upon which duty has been paid and which has subsequently undergone a process of manufacture, there are certain administrative difficulties which demand great circumspection on the part of the authorities. The estimate of the quantity of the dutiable material used in the production of a given quantity of the exported article opens the door to attempts at fraud on the part of merchants who claim drawback on an excessive quantity or at a higher rate than has originally been paid. Having regard to the variety and extent of the tariff, this difficulty is a grave one, and the problem of meeting it is the converse of that presented by under-valuation and improper classification on importation. The aim of the authorities is to trace, so far as is

possible, the actual history of the goods presented for drawback, but such a task is of course one of great difficulty. No department of the New York Custom House is more interesting than the Drawback Division, and to study the details of the procedure by which a check is exercised upon the claims for drawback is most instructive. The check is of a two-fold nature, consisting in the first place of an affidavit from the exporter stating when the goods in respect of which he applies for drawback were imported, with a reference to the precise entry on which duty was paid, and, in the second place, of a verification of the exporter's statements by a Special Agent's investigation. The function of the "Special Agents" in the United States Customs system is a peculiar one. Acting under the direct orders of the Treasury, they are in great measure independent of the ordinary Customs officials and receive their instructions from headquarters at Washington rather than from the local collector of a particular port. They are mainly employed in connexion with smuggling and under-valuation investigations, but the drawback verifi-

cations demand an equal degree of acumen, together with intimate technical knowledge. On his attention being drawn by the Customs officials to a drawback claim which is regarded as in any way suspicious, the Special Agent undertakes a close examination of the books of the exporter concerned, and is empowered to demand the production of all documents which he may require. It is difficult to estimate the extent to which these safeguards are adequate. The drawback claims present such ramifications that proper verification is attended with serious difficulties, and, in cases where the exporter is determined to defraud the authorities, it is easy to imagine that his claims may be so framed, and his accounts so adjusted, as to defy any ordinary attempt at detection.

VI

THE PREVENTION OF
SMUGGLING

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THE PREVENTION OF SMUGGLING

THE designs of the smuggler must be taken into account by those responsible for the administration of a tariff, whether of *ad valorem* or specific duties. It is natural that the gain to be derived from an evasion of import duties should stimulate the cupidity of importers whose standard of morals is not high and the ingenuity of those who regard fraud against the State as the most venial of sins. All governments which depend for revenue upon the taxation of imported commodities have to consider by what methods smuggling can best be checked.

“When the diminution of the revenue is the effect of the encouragement given to smuggling it may perhaps be remedied in two ways,” says Adam Smith,¹ “either by diminishing the temp-

¹ *Wealth of Nations*, Book 5, Chapter 2.

tation to smuggle or by increasing the difficulty of smuggling. The temptation to smuggle can be diminished only by the lowering of the tax, and the difficulty of smuggling can be increased only by establishing that system of administration which is most proper for preventing it."

The former of the remedies for smuggling concerns the economic rather than the administrative aspect of the tariff, but it may be noted that this is the remedy which has been applied in the United Kingdom, where, during the prevalence of the high import duties which were imposed in the eighteenth century, smuggling was an exceedingly lucrative trade. It was indeed at one time difficult for the strictest moralist to draw the line between smuggling and commercial enterprise, and the contraband traffic which became so extensive must be attributed quite as much to injudicious tariff makers as to any original sin on the part of the smugglers. In the year 1831, just before the dawn of the free trade era, it was officially estimated that the British Revenue was losing £800,000 a year by the illicit importation of dutiable articles, chiefly French brandy from the

Continent of Europe. And two years later, Charles Lamb expressed the popular sentiment towards the contraband trade when he wrote, "I like a smuggler, he is the only honest thief. He robs nothing but the revenue—an abstraction I never greatly cared about." Even so late as the year 1840, there was reason to believe that nearly half the silk goods imported from France entered free of duty. In addition to the loss in which the Revenue was thus involved, the cost of administration was rendered excessive by the necessity for maintaining an abnormally large preventive staff. But the coming of free trade brought into effect the former of the remedies suggested by the author of the *Wealth of Nations*, and lessened the difficulty of applying the second remedy, namely, the establishment of an appropriate system of administration for the frustration of such attempts at smuggling as continued to exist. Little or no difficulty is now experienced by the British Customs Department in dealing with such sporadic cases of smuggling as from time to time still occur. Perhaps the main problem is in connexion with the smug-

gling of saccharin, the duty on which (7*d.* per ounce) is relatively high. But such illicit trade in saccharin as exists is mainly conducted, not by British citizens, but by aliens of a low civic type, with whom the ordinary preventive machinery of the Customs and Excise Department is well able to deal. Other articles in connexion with which attempts at smuggling still frequently occur are spirits and tobacco, but in neither case is any undue strain placed upon the preventive resources of the Revenue Department. The number and character of the seizures made during the year ending March 31, 1912, are shown in the following table :¹—

Total seizures	5,916
Number of seizures of tobacco, cigars and foreign spirits	5,825
Quantity of tobacco seized .	8,382 lbs.
Quantity of foreign spirits seized	172 gallons.
Number of persons fined :—	
In summary cases 3205	} 3,219
In non-summary cases 14	
Penalties recovered	£5,108

¹ *Annual Report of Commissioners of Customs and Excise, 1912.*

Far different is the smuggling problem in the United States, where the level of import duties is almost prohibitively high. Such a tariff schedule furnishes a powerful incentive to the smuggling propensities of citizens whose love of gain is great, and whose standard of patriotism does not appear in this matter to be very high. To the Customs authorities the problem is a perplexing one, for prosecution follows prosecution and seizure follows seizure in monotonous sequence without producing much apparent effect. The distinction which is now made by the authorities in the ranks of returning American travellers between "residents" and "non-residents" has possibly diminished to some extent the quantity of dutiable goods imported free of duty, but, on the other hand, it presents great practical difficulties and encourages the concealment of articles which would otherwise be openly declared. The rule is that "non-residents" are entitled to bring in articles free of duty as follows: wearing apparel, articles of personal adornment, toilet articles, and similar effects in actual use and necessary and

proper for the wear, use, comfort and convenience of such persons for the purposes of the journey and neither intended for other persons nor for sale. There is no limit to the value of such articles which may be brought in free of duty by "non-residents." "Residents," on the other hand, are entitled only to articles purchased or otherwise obtained abroad of a value not exceeding one hundred dollars provided that they are not for sale, and to all wearing apparel and other personal effects taken by such persons out of the United States to foreign countries which have not been re-modelled or improved abroad so as to increase their value. For the purpose of these rules, "non-residents" are defined as actual residents in other countries, or, at their election, persons leaving the United States and who have had a fixed foreign abode for one year or more, or who have been abroad for two years with or without a fixed place of foreign abode. It will be seen at a glance that such regulations present many difficulties of definition, and, when read by travellers unfamiliar with departmental practice, furnish material for constant misunderstanding.

For a long time there was practically no limit to the quantity of personal effects which an American citizen returning from a tour in Europe might bring with him, and certain ladies were systematically employed by American firms dealing in dresses and millinery, to journey between Paris and New York, bringing with them in large quantities, as personal effects, the latest creations of French costumiers for subsequent sale in the United States. As a system this has now, to a large extent, ceased, but nevertheless to watch the work of the inspectors and appraisers at the wharf in New York on the arrival of a liner from Europe is to realize that many Americans consider themselves hardly dealt with under the present regulations. And in spite of the revised rules, there can be no doubt that scope still exists for the evasion of duty by the ingenious and the determined.

The United States Customs Staff employed in dealing with passengers' baggage is of two distinct kinds.

(a) The inspectors, who actually examine baggage in search of contraband and dutiable

articles which have not been declared, and

(b) The appraising staff, by whom is assessed the value of articles liable to duty on an *ad valorem* basis.

Both branches of the staff consist of men skilled in their respective duties, and the expedition with which their work—frequently demanding the greatest tact and expert judgment—is performed, is very creditable.

One safeguard has been introduced by the administration at New York which is worthy of special notice. The appraisers, on whom falls the duty of assessing values, stand in a row at a given spot in the baggage shed until their services are called for by the inspectors engaged in examining the trunks and boxes of the passengers. An inspector comes along to request the services of an appraiser, and whichever appraiser stands at the end of the row at the time the inspector arrives deals with the case in question. The selection of a particular appraiser for a particular case is thus rendered impossible and risk of collusion between appraiser and inspector or between the appraiser and the

passenger is minimized. Another precaution which, though in itself a detail, is one of some significance, is that the officers by whom the liner is met when she enters New York Harbour and who go on board to receive passengers' declarations of articles liable to duty, are a distinct corps of officers from those by whom the actual examination of the baggage is conducted. The officers who meet the ship confine their attention to receiving and examining the declarations, calling attention to obvious omissions or inaccuracies; on reaching the dock these declarations are handed over to the officers in charge of the shed and are then dealt with by another detachment of officers.

The examination of baggage is conducted with due regard both to the rights of the citizen and to the safety of the Revenue. The Customs Officers are vigilant and respectful and, knowing by experience the possibilities of human nature, they endeavour to reconcile a tactful treatment of the public with the duties imposed upon them by those responsible for the administration of an onerous tariff. The penalties to which those

who “knowingly and wilfully smuggle any goods, wares or merchandise” render themselves liable are extremely heavy, and have recently been exacted with increasing stringency. On conviction, a fine of any sum up to \$5,000 may be imposed or the smuggler may be imprisoned for any term not exceeding two years ; or, at the discretion of the Court, both penalties may be imposed concurrently. To stimulate the Customs Officers in their activities, it is prescribed that the seizing officer is entitled to any sum, up to one half of the net proceeds of the seizure, as may be awarded him by the departmental authorities.

The seriousness with which the smuggling problem is regarded by the Federal Government may be gathered from the following extract from a recent Annual Report of the Secretary to the Treasury :—

“It is clear that the widespread disposition of returning American travellers to evade payment of the legal duties has greatly helped to create conditions which have become intolerable. Those Americans who travel abroad belong to the sections of the public which most readily create public sentiment and are most responsible for it, and

he fact that these travellers are willing to defraud the Government out of considerable or even small sums creates an atmosphere on the docks that strongly tends to affect the *morale* of the whole Customs service. And when to this is added the frequent willingness on the part of these responsible citizens specifically to corrupt the Government's men, this demoralization is further accentuated."

CONCLUSION

CONCLUSION

AN attempt has been made in this little volume to review some of the problems which confront those responsible for the administration of a tariff. Any reference to the political and economic aspects of the tariff question has been deliberately omitted. The advocate of free trade will probably find in the difficulties and complexities inseparable from an extensive schedule of import duties an illustration of the advantages of a tariff for revenue only. The protectionist may be interested to learn something of the way in which the difficulties have been met and the complexities simplified. Whilst it is untrue to speak of any country as possessing a scientific tariff, it will be perceived that, in the operation of a tariff, an immense field exists for the application of scientific principles of administration, and in the direc-

APPENDIX A

A COMPARISON OF PAST AND PRESENT TARIFF ADMINISTRATION IN GREAT BRITAIN

Although the United Kingdom is now a free-trade country, the story of British tariff administration is of peculiar interest.

Before the reforms of Huskisson and Peel nearly every commodity imported into the United Kingdom was liable to duty, and the administration of the Customs Department was characterized by an extravagance and mismanagement which are inconceivable to-day. The regulations governing departmental procedure in regard to the importation and custody of goods depended upon fifteen hundred separate Acts of Parliament. Nor was the *personnel* of the Department such as to encourage efficient and economical administration, as is evident from the facts which were set forth in an historical appendix to the First Annual Report of the Commissioners of Customs in 1857.

“A large proportion of the functionaries in every grade from the highest to the lowest owed their appointment to political or local influence and not in-

are supervised from headquarters by an inspectorial staff, its function being to bring centralized knowledge to the assistance of local officials, who might otherwise be out of touch with the requirements of the Board. The Customs Department performs many duties other than the mere collection of revenue. Certain sections of the Merchandise Marks, the Merchant Shipping, the Copyright, Aliens and Diseases of Animals Acts are administered by the Customs Authorities. For this reason inferences from the percentage cost of collection of the Revenue, which averages about $2\frac{3}{4}$ per cent., are likely to be quite inaccurate and misleading. This question of the cost of collection indeed is one which contains many pitfalls for the student of Tariff administration. A reduction in the rates of duty, for instance, does not necessarily imply a diminution in the expense of collecting the duties which remain, nor an increase of rates of duty a corresponding increase in the cost of collection. There may be just as much work, and precisely the same number of officials required in assessing and bringing to account a duty of a farthing a pound as there would be in collecting a duty of sixpence a pound, and the percentage cost of collection will therefore seldom be found to vary directly with the aggregate revenue collected from year to year. The actual expense of maintaining the Customs Department is about a million pounds a year, and, as the revenue col-

lected amounts to upwards of thirty millions sterling it will be seen that the administration, freed from the grotesque extravagances which once prevailed, is as economical as it is efficient.

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A. MAURICE LOW.

Member of the American Social Science Association

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